

MORGANITE SPECIAL CARBONS LIMITED

REGISTRATION NUMBER 1034654

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

4TH JANUARY 2002



MORGANITE SPECIAL CARBONS LIMITED

DIRECTORS

MR J.J. BOURNE	
MR E. THEIN	Resigned 2 nd August 2001
MR J.D. QUINN	Resigned 2 nd August 2001
MR F.S. BROWN	Resigned 2 nd August 2001
MR G.A. ADDESSO	Resigned 2 nd August 2001
MR S. HUSSEY	
MR W. MANCINI	

SECRETARY AND REGISTERED OFFICE

L.H. Cook
Quay Lane
Gosport
Hants
PO12 4LJ

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

1. The Directors submit their Annual Report and the audited Accounts for the year ended 4th January 2002.

2. **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Company currently manufactures and sells from three separate locations within the UK, namely Gosport, Redditch and Morriston.

The principal activities of these sites continues to be the production of carbon, carbon composite, silicon carbide, filled PTFE, graphite and metal components for electrical, mechanical, aerospace, metallurgical and nuclear engineering applications. These products include bearings, sealing rings, piston rings, pump vanes, valve seats, gland rings, billet and strip dies, degassing rotors, furnace trays and heating elements.

The Company is part of a globally managed team, Morgan Advanced Materials and Technology, incorporating other subsidiaries of the Morgan Crucible Company Plc from Europe, Asia Pacific and the Americas.

During the year the Company continued to offer a diversified range of products throughout the World to other Morgan Crucible Company Plc subsidiaries and third party customers alike.

In support of this, significant revenue expenditure in excess of £1.5 Million, has been made this year in the development of new potential product lines.

3. **RESULTS FOR THE YEAR**

The loss for the year after taxation is £1,689,000 (2000: profit £161,000), which will be transferred to reserves.

The Directors do not recommend the payment of a dividend.

4. **DIRECTORS AND DIRECTORS INTERESTS**

- a. The names of the Directors as at the date of the Report are shown on page 1, together with details of appointments and resignations made during the financial year under review.

- b. None of the Directors had any interests in shares of the Company. Directors' interests in the Company's ultimate holding company, The Morgan Crucible Company Plc, are as follows:

	<u>04.01.02</u>	<u>04.01.01</u>
<u>Ordinary shares of 25p each</u>		
Mr W Mancini	3,068	3,068
Mr J J Bourne	2	2

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

4. DIRECTORS AND DIRECTORS INTERSTS (CONTINUED)

	<u>04.01.02</u>	<u>04.01.01</u>
<u>Morgan Share Participation Scheme</u>		
Mr J J Bourne	0	75
	<u>04.01.02</u>	<u>04.01.01</u>
<u>Ordinary Shares held under option</u>		
Mr J J Bourne	0	1,093
Mr S Hussey	15,000	15,000
Mr W Mancini	25,000	25,000
	<u>04.01.02</u>	<u>04.01.01</u>
<u>Ordinary Shares held under the Long Term Incentive Plan</u>		
Mr J J Bourne	0	3,500

The above options were held under The Morgan Sharesave Scheme (1995) and The Morgan Executive Share Option Scheme (1995) and may be exercised between 17th October 1999 and 18th June 2010 at prices between 219.00p and 478.00p.

During the period under review Mr Bourne sold 75 Ordinary shares and allowed options on 4,593 shares to lapse.

5. RESEARCH AND DEVELOPMENT

The Company continues its investment in research and development to retain its position as a market leader in materials technology.

6. EMPLOYEE INVOLVEMENT

Communication with employees through both formal and informal channels has been maintained during the year and their involvement in the Company's performance encouraged by means of incentive and other schemes.

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

7. PAYMENTS TO SUPPLIERS

The Company agrees the terms and conditions under which business transactions with its suppliers are conducted when it enters into binding purchase contracts. It is Company policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Company's purchasing arrangements, it is not Company policy to follow any code or standard which deals with the payment of suppliers.

At 4th January 2002, the Company had an average of 93 days (2000: 115 days) purchases outstanding in trade creditors.

8. AUDITORS

Ernst & Young resigned as the Company's auditors in September 2001.

KPMG Audit Plc were appointed by the directors as the Company's auditors in September 2001. In accordance with Section 385 of the Companies Act 1985 a resolution for the reappointment of KPMG Audit Plc as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'L.H. Cook'. The signature is stylized with a large 'L' and a cursive 'H' and 'Cook'.

L.H. Cook
Company Secretary
Quay Lane
Gosport
Hants
PO12 4LJ

MORGANITE SPECIAL CARBONS LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 4TH JANUARY 2002

	NOTES	2001 £000's	2000 £000's
Turnover : Ongoing	2	11,931	14,366
Other operating income		164	132
		<u>12,095</u>	<u>14,498</u>
Operating costs	3	13,642	14,289
Operating (Loss) / Profit : Ongoing		<u>(1,547)</u>	<u>209</u>
Interest payable	6	101	53
(Loss) / Profit on ordinary activities before taxation		<u>(1,648)</u>	<u>156</u>
Taxation on (Loss) / Profit on ordinary activities	7	41	(5)
Retained (Loss) / Profit for the financial year	16	<u>(1,689)</u>	<u>161</u>

There are no recognised gains or losses for the current or previous period other than those reported in the profit and loss account. There is no difference between the loss on ordinary activities before taxation and the retained loss for the financial year and their historical cost equivalents.

MORGANITE SPECIAL CARBONS LIMITED
BALANCE SHEET
AS AT 4TH JANUARY 2002

	NOTES	2001 £000's	2000 £000's
FIXED ASSETS			
Tangible Assets	8	8,082	7,181
Investments in subsidiary undertakings	9	<u>1,213</u>	<u>1,213</u>
		9,295	8,394
CURRENT ASSETS			
Stocks	11	2,714	2,767
Debtors:			
Amounts due within one year	12	2,307	3,871
Amounts due after more than one year	12	<u>981</u>	<u>976</u>
		3,288	4,847
Cash at bank and in hand		<u>81</u>	<u>167</u>
		6,083	7,781
Creditors - amounts falling due within one year	13	<u>5,215</u>	<u>4,323</u>
NET CURRENT ASSETS / (LIABILITIES)		868	3,458
TOTAL ASSETS LESS CURRENT LIABILITIES		10,163	11,852
Creditors - amounts falling due after one year	10	3,492	3,492
Provision for liabilities and charges	14	<u>303</u>	<u>303</u>
NET ASSETS		<u>6,368</u>	<u>8,057</u>
CAPITAL AND RESERVES			
Called up share capital	15	13,000	13,000
Revaluation reserve	16	1	1
Profit and loss account	16	<u>(6,633)</u>	<u>(4,944)</u>
Shareholders' Funds - Equity Interests		<u>6,368</u>	<u>8,057</u>

These financial statements were approved by the board of directors on 20th September, 2002 and were signed on its behalf by :

S. Hussey

S. Hussey
Director

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

1. ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Basis of Presentation

The Company is exempt from the requirement to prepare group accounts by virtue of Section 228 of the Companies Act 1985. These accounts therefore present information about the Company as an individual undertaking and not about its group.

Cash Flow Statement

The Company is exempt from the requirement to publish a Cash Flow Statement as it is a wholly owned subsidiary of The Morgan Crucible Company Plc which publishes a Cash Flow Statement which meets the requirements of Financial Reporting Standard No. 1.

Related Party Transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 from disclosing transactions with related parties that are part of the Morgan Crucible Group or Investees of the Group.

Reorganisation Costs

The cost of rationalising continuing businesses are charged against operating profit.

Depreciation

Depreciation is based on gross values and is provided in equal annual instalments over the expected life of fixed assets in use during the year.

The rates of depreciation provided during the year are as follows:-

Buildings	2%			
Plant and Machinery	10%	or	20%	
Fixtures and Fittings	5%	10%	or	20%
Motor Vehicles	33 $\frac{1}{3}$ %			

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing difference will reverse.

Stocks

Stocks and work in progress have been valued at the lower of cost and net realisable value. For this purpose 'cost' means direct cost and direct expenses including applicable overheads less provisions for obsolescence.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

1. ACCOUNTING POLICIES (CONTINUED)

Long Term Contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leased Assets

Rental under operating leases are charged to the profit and loss account as incurred.

Research and Development

Expenditure on research and development is written off in the year in which it is incurred.

Pensions

Contributions are made to the pension schemes in accordance with actuarial advice and are charged to profit and loss account so as to spread the pension cost over the anticipated period of service of the Pension Scheme members.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced value of sales to third parties and fellow subsidiaries less returns and allowances given in the normal course of trade.

The turnover and operating profit is attributable to one continuing activity the manufacture and sale of carbon and graphite components, and originates wholly in the United Kingdom.

An analysis of turnover by geographical market is as follows:-

	2001	2000
	£000's	£000's
United Kingdom	4,831	6,661
Rest of Europe	5,597	5,511
The Americas	541	1,084
The Far East and Australasia	662	791
The Middle East and Africa	300	319
	<u>11,931</u>	<u>14,366</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

3. OPERATING COSTS

	2001 £000's	2000 £000's
Change in stocks of finished goods and work in progress	32	(309)
Raw Materials and consumables	4,636	5,887
Other external charges	942	795
	<u>5,610</u>	<u>6,373</u>
<i>Employee costs:</i>		
Wages and salaries	3,704	4,133
Social security costs	295	335
Other pension costs	301	309
	<u>4,300</u>	<u>4,777</u>
<i>Depreciation : Owned assets</i>	863	794
<i>Rentals under operating leases : Other operating leases</i>	110	101
Other charges	2,759	2,244
Total operating costs	<u>13,642</u>	<u>14,289</u>
The following items are also included in operating costs:		
Auditors remuneration – audit services	22	22
Exchange losses	17	10
Research and development expenditure	<u>10</u>	<u>34</u>

4. DIRECTORS' REMUNERATION

	2001 £000's	2000 £000's
Emoluments	<u>118</u>	<u>183</u>

One of the Directors (2000 : two Directors) is a member of the Morgan Senior Staff Pension scheme, a defined benefit scheme.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

5. STAFF NUMBERS

The average weekly number of persons employed by the company, including Directors, during the year was as follows:-

	2001	2000
Manufacturing	116	124
Management and Administration	44	48
	<u>160</u>	<u>172</u>

6. INTEREST PAYABLE AND RECEIVABLE

	2001 £000's	2000 £000's
Interest payable on bank overdrafts	<u>101</u>	<u>53</u>

7. TAXATION ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	2001 £000's	2000 £000's
Based on profit for the year		
Corporation Tax at 30%(2000 – 30%)	41	
Deferred Tax		(5)
	<u>41</u>	<u>(5)</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

8. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £000's	Fixtures Fittings Plant and Machinery £000's	Total £000's
<i>Cost or valuation</i>			
At 4 th January 2001	2,913	13,210	16,123
Additions	231	1,555	1,786
	3,144	14,765	17,909
Disposals	-	(63)	(63)
At 4 th January 2002	3,144	14,702	17,846
<i>Aggregate depreciation:</i>			
At 4 th January 2001	642	8,300	8,942
Amount provided for year	26	837	863
	668	9,137	9,805
Disposals	-	41	41
At 4 th January 2002	668	9,096	9,764
<i>Net book amounts:</i>			
At 4 th January 2002	2,476	5,606	8,082
At 4 th January 2001	2,271	4,910	7,181
<i>Historical cost to the Group</i>			
Historical cost at 4 th January 2002	2,618		
Accumulated historical depreciation	644		
Net Book Value at 4 th January 2002	1,974		

Land and Buildings were transferred from the ultimate Parent Undertaking Company at a written Down value of £408,000. The land and buildings had previously been revalued in 1989.

The Company has chosen to take advantage of the transitional arrangements in FRS 15 Tangible Fixed Assets and as a result has retained the book amounts of certain tangible fixed assets which were previously revalued. This valuation has not been updated.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	SHARES £000's
<i>Cost:</i>	
At 4 th January 2001	1,213
At 4 th January 2002	<u>1,213</u>
<i>Net Book Value:</i>	
At 4 th January 2001	1,213
At 4 th January 2002	<u>1,213</u>

**Issued Shares and Proportion held
by the Company**

<i>Subsidiary Company</i>	<i>Shares</i>	<i>%</i>
Southern Graphite Services Limited	19,100 Ordinary Shares £1 each Fully paid	100

The company is registered in England and Wales. In the opinion of the Directors the aggregate value of the investment in the subsidiary undertaking is not less than the amount at which they are stated in the Accounts.

Group accounts have not been prepared as the Company is itself a wholly owned subsidiary of a company incorporated in the UK.

10. CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

Inter Company Loans arose as a result of the acquisition of the trade and net assets of Southern Graphite Services Limited and of Pure Industries Limited on 30th August 1996, and 4th January 1997 respectively. Pure Industries Limited was placed in voluntary liquidation on 13th July 2000 and as a result the liability outstanding was reassigned to the Morgan Crucible Company Plc.

Pure Industries Limited was dissolved on 2nd May 2001.

	2001 £000's	2000 £000's
Southern Graphite Services Limited	2,587	2,587
The Morgan Crucible Company Plc	905	905
	<u>3,492</u>	<u>3,492</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

11. STOCKS

	2001	2000
	£000's	£000's
Raw materials and consumables	920	917
Work in progress	1,124	1,036
Finished goods and goods for resale	670	814
	<u>2,714</u>	<u>2,767</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. DEBTORS

	2001	2000
	£000's	£000's
Trade debtors	1,620	2,765
Amounts owed by fellow subsidiary undertakings	441	711
Other debtors	122	295
Prepayments and accrued income	124	100
	<u>2,307</u>	<u>3,871</u>
<i>Amounts due after more than one year</i>		
Prepaid pension contributions (Note 19)	<u>981</u>	<u>976</u>

13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000
	£000's	£000's
Amounts owed to fellow subsidiary undertakings	2,475	402
Trade creditors	775	1,764
Bank overdraft	1,110	1,433
Corporation Tax		(69)
Other taxes and social security costs	215	180
Other creditors		192
Accruals	640	421
	<u>5,215</u>	<u>4,323</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

14. PROVISIONS FOR LIABILITIES AND CHARGES

An analysis of deferred tax provided and unprovided is as follows:-

	2001		2000	
	Provided	Unprovided	Provided	Unprovided
	£000's	£000's	£000's	£000's
Accelerated capital Allowances	-	431	-	288
Other timing differences	303	-	303	-
	<u>303</u>	<u>431</u>	<u>303</u>	<u>288</u>

15. CALLED UP SHARE CAPITAL

	2001	2000
	£000's	£000's
Authorised:		
Ordinary Shares of £1 each	<u>14,000</u>	<u>14,000</u>
Allotted, called up and fully paid Ordinary Shares of £1 each	<u>13,000</u>	<u>13,000</u>

16. STATEMENT OF MOVEMENT ON RESERVES AND SHAREHOLDERS' FUNDS

	Share Capital	Revaluation Reserve	Profit and Loss	Total
	£000's	£000's	£000's	£000's
At 4 th January 2000	13,000	1	(4,944)	8,057
Profit for the year	-	-	(1,689)	(1,689)
At 4 th January 2001	<u>13,000</u>	<u>1</u>	<u>(6,633)</u>	<u>6,368</u>
Profit for the year	-	-	-	0
At 4 th January 2001	<u>13,000</u>	<u>1</u>	<u>(6,633)</u>	<u>6,368</u>

17. COMMITMENTS FOR CAPITAL EXPENDITURE

Commitments for capital expenditure for which no provision has been made in these accounts amount to Nil (2000: £Nil).

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

18. LEASING COMMITMENTS

At 4th January 2001 the Company had annual commitments in relation to plant, machinery and land and buildings under non - cancellable operating leases as set out below:-

	Plant and Machinery	Land and Buildings	Plant and Machinery	Land and Buildings
	2001	2001	2000	2000
	£000's	£000's	£000's	£000's
Operating leases which expire within one year	98	30	13	-
	122	120		
Within two to five years			59	-
	<u>220</u>	<u>150</u>	<u>72</u>	<u>-</u>

19. PENSION COMMITMENTS

The Company is a member of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme.

Both schemes are of the defined benefit type. The latest actuarial valuations of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme were made by an independent professionally qualified actuary on 6th April 2000 and 1st April 2001 respectively.

The pension cost charged to the profit and loss account was £301,000 (2000 : £309,000).

Details of the actuarial valuations are included in the accounts of The Morgan Crucible Company Plc, the ultimate holding company.

FRS 17

Because the Company is unable to identify its share of the schemes assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the schemes will be accounted for by the Company when the accounting standard is fully adopted by the Company as if the schemes were defined contribution schemes.

Any surplus / deficit within these schemes will be discussed in the notes to the accounts of the ultimate parent undertaking, The Morgan Crucible Company Plc.

20. ULTIMATE PARENT UNDERTAKING

The Parent Company of the Group of undertakings for which Group Accounts are drawn up and of which the Company is a member, and the ultimate controlling party, is The Morgan Crucible Company Plc, registered in England and Wales. The only group in which the results of the company are consolidated is that headed by The Morgan Crucible Company Plc. The consolidated accounts of this company are available to the public and may be obtained from Morgan House, Madeira Walk, Windsor, Berks. SL4 1EP.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 2001

Company Law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:-

- ❖ select suitable accounting policies and then apply them consistently;
- ❖ make judgements and estimates that are reasonable and prudent;
- ❖ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- ❖ prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order Of the Board

L.H. Cook
Company Secretary

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE AUDITORS
TO THE MEMBERS OF MORGANITE SPECIAL CARBONS LIMITED

We have audited the accounts on pages 5 – 15.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the directors' report and, as described on page 16, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 4th January 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountant
Registered Auditor
Southampton

7 October 2002